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Market View April 2026

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Executive Summary

Equity markets have so far followed the “classic” oil shock script, falling roughly 10% from February highs. The critical question is whether this proves to be a short, sharp disruption – like the 1990 Gulf War – or a prolonged shock like 1973 and 1979.

Both the US and Iran face a narrowing window for an off-ramp. Iran retains leverage only as long as it can credibly threaten the Strait of Hormuz – the longer it waits, the more its military capacity is degraded. Trump faces rising energy prices, a 35% approval rating, and midterm elections. He has signaled openness to a deal while keeping the threat of a final 2-3 weeklong push alive. China's diplomatic entry as a potential peace broker and the likely only credible security guarantor for Iran adds a further structural push toward resolution in the coming weeks in our view.

Beneath the turbulence, fundamentals have held up. Twelve-month forward earnings estimates for the S&P 500 have actually accelerated, and credit spreads have so far remained contained. Goldman Sachs has raised its recession probability to 30%, which seems fair at this point. The market continues to treat this as a temporary disruption, not the beginning of a structural downturn.

We are cautiously constructive. We trimmed equity exposure modestly in mid-March as a risk management measure but have remained overweight. The rally this week, combined with a significant increase in bearish sentiment beforehand, suggests the market may have already bottomed. Our conditions for adding risk include clear political efforts toward de-escalation, alongside a visible resumption of tanker traffic through the Strait of Hormuz and Brent crude declining convincingly below USD 100 per barrel.

Equities have rallied on each sign of de-escalation – typically early in the week – and sold off sharply whenever Trump signals the possibility of more serious escalation. With the April 6th deadline for Iran to reopen Hormuz expiring coming Monday, uncertainty is unusually high heading into the three-day Easter weekend. Trump has historically chosen to escalate when markets are closed. A diplomatic breakthrough would trigger a sharp rally; a further escalation would likely test this week's low.

Monthly Review

March 2026 marked the first genuine oil shock since 2022. Equity markets fell roughly 10% from their highs as the Iran conflict shifted from a background geopolitical risk to a primary market driver. Despite these pressures, the MSCI World index closed the quarter down only 3.5% year-to-date in USD, showing notable resilience.

Energy prices surged. Brent crude climbed roughly 78% from early February and 52% from early March, while the US national average for gasoline exceeded USD 4 per gallon for the first time since 2022 – a politically sensitive threshold that increases pressure on Trump to pursue de-escalation. The sell-off was widespread: the Magnificent 7 declined around 6%, the Stoxx 600 fell 7.5%, and Emerging Markets dropped 13% in March. Bitcoin held up better than expected, posting modest gains.

Gold was the most notable underperformer, falling 11.5% in March with a peak drawdown of nearly 25%. It became a key source of liquidity as demand for US dollars surged during the crisis. Strong selling pressure came from Turkey, which reportedly liquidated significant reserves to support the lira. We had reduced our gold exposure earlier in the year near USD 5,100 per ounce and used the March decline to rebuild positions at more attractive levels. While volatility is likely to persist, we believe gold is now the most thoroughly reset asset class, with its long-term fundamentals intact and arguably improved by increased political uncertainty.

The most significant macro shift was a sharp tightening in financial conditions. The US Financial Conditions Index – combining interest rates, credit spreads, equities, and the dollar – reached its tightest level since June 2025, tightening at the second-fastest pace since the Fed's 2022 hiking cycle. Such tightening typically dampens economic activity with a lag. If sustained, the shock risks evolving from an energy and inflation concern into a broader growth slowdown, increasing the likelihood of recession.

Peace Deal Window Open – China Holds the Key

We believe the most important new diplomatic variable is China. On 31st of March Chinese Foreign Minister Wang Yi and Pakistani Foreign Minister Ishaq Dar concluded talks in Beijing and published a joint five-point peace initiative calling for an immediate ceasefire, the swift start of peace negotiations, and the urgent restoration of free navigation through the Strait of Hormuz.

Beijing may be uniquely positioned to provide Iran with credible long-term security guarantees in return for reopening the Strait of Hormuz, while also being Tehran's largest oil buyer with a strong economic stake in keeping the passage open.

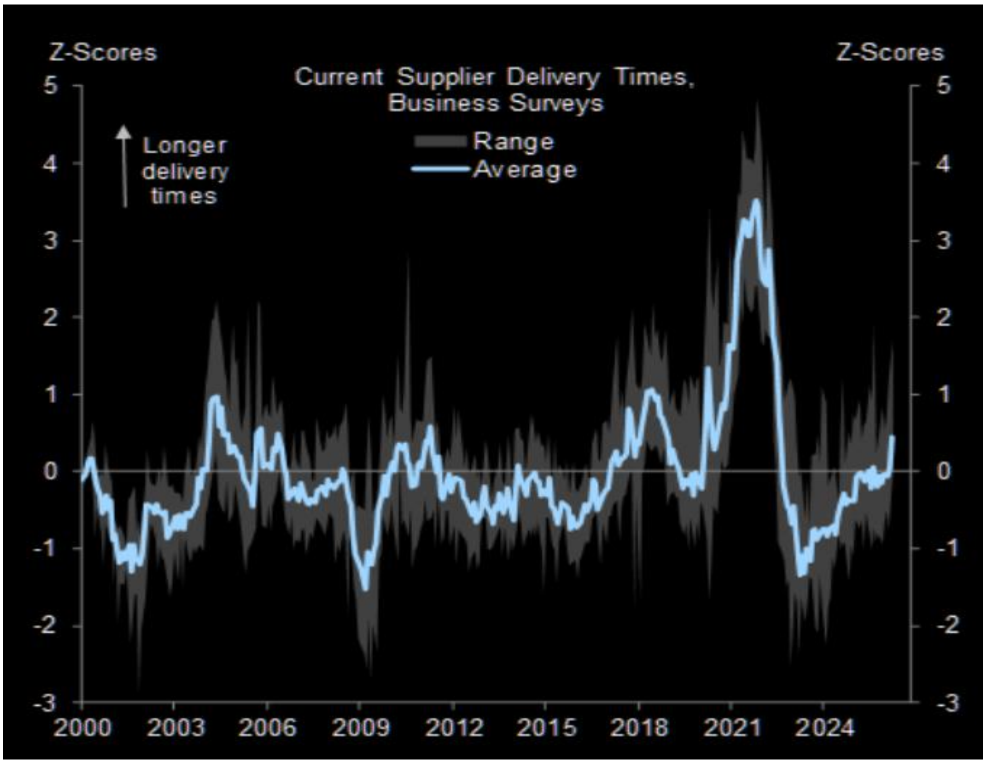
Trump has indicated that the US may wrap up its involvement in the war within the next two to three weeks. In our view, both sides have compelling incentives to reach a resolution before the damage becomes irreversible.

The bull case: once the conflict ends and Hormuz begins to reopen, markets can look through the economic damage just as they do after a natural disaster whose cause is known and finite. Earnings were accelerating into the shock and medium- and long-term inflation expectations have remained anchored so far. If a deal is struck, Brent could fall USD 25-30 per barrel within days and the S&P 500 could rally back toward 7,000.

The bear case: physical buffers – strategic oil reserves, inventory drawdowns, pre-war floating storage – are finite and soon exhausted. Energy markets are steering towards a cliff where price spikes can go parabolic. If companies then respond to sustained margin pressure by cutting employment, a recessionary spiral becomes possible.

We give the advantage to the bull scenario, contingent on near-term US military disengagement, as supply chain indicators suggest the global economy can absorb a temporary shock if the conflict resolves quickly.

The chart below tracks global supplier delivery times expressed as Z-scores (standard deviations) – a statistical measure of how far current conditions deviate from the long-term average, where zero is normal and the 2021/22 spike of nearly +4 standard deviations reflected the full-blown pandemic supply chain crisis followed by the Ukraine invasion.



Source: Goldman Sachs

Today's reading has ticked up modestly but remains close to zero. While the Hormuz closure is causing real disruption, it has not yet triggered the broad, embedded supply chain dislocation that prolonged the 2021-2022 inflationary episode.

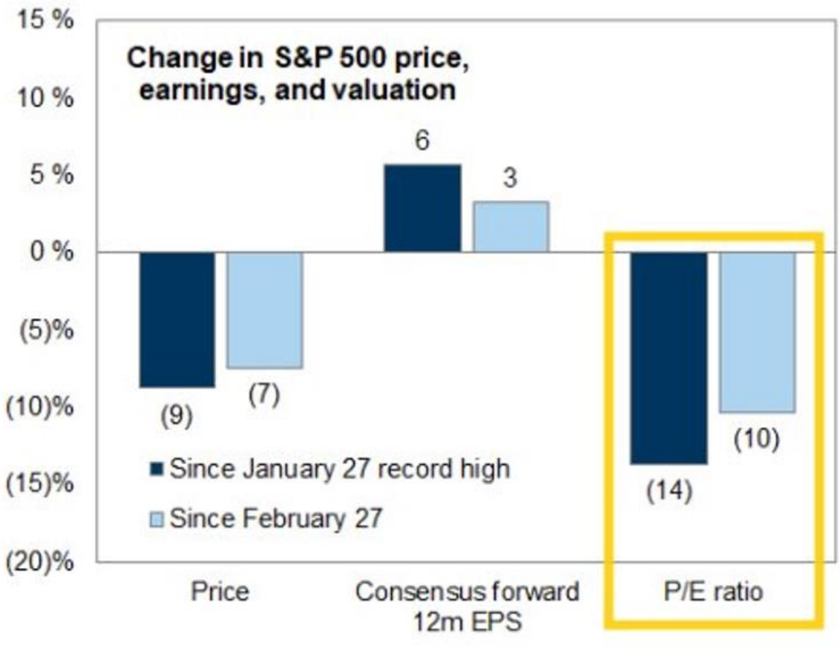
Positioning

We interpret recent market weakness as a correction within an ongoing bull market. Despite a challenging backdrop – geopolitical conflict, surging oil prices, rising rates, AI uncertainty, and six months of consolidation in the Magnificent 7 – the S&P 500 is down less than 5% year-to-date. Bull markets have averaged around 5.6 years historically, while the current cycle is approximately three years old.

A correction of around 10% is typical once a year and often presents attractive entry opportunities. That said, as long as the Strait of Hormuz remains closed, downside risks could easily escalate, and this could spiral into a bear market.

Nevertheless, sentiment and positioning indicators suggest to us a low may already be forming. While a retest remains possible, our base case is that the majority of the drawdown is behind us. Put option volumes – elevated during periods of peak fear – have risen to levels historically associated with correction troughs. Investment Grade credit spreads have remained well contained; in past bear markets, they widened materially well before equities bottomed. Their current stability points to limited systemic stress.

The equity sell-off has been a valuation story, not an earnings story – a distinction critical for the recovery path once uncertainty subsides. Since the 27 January peak, the S&P 500 has declined roughly 9% to its low, driven primarily by a ~14% compression in the forward P/E ratio while consensus 12-month earnings estimates have risen approximately 6% according to Goldman Sachs.



Source: Goldman Sachs, FactSet

This marks one of the sharpest valuation de-rating episodes since the Global Financial Crisis and leaves US equities more attractive.

On a sector level, technology valuations have adjusted materially, with the premium relative to the broader S&P 500 falling to a seven-year low. Nvidia now trades at roughly the same forward P/E as the index for the first time in over a decade, despite being expected to contribute approximately 21% of S&P 500 earnings growth in 2026.

A key caveat: earnings estimates typically lag market movements in sustained downturns. In 2022, estimates continued rising for months after equities had already peaked. Should Hormuz remain closed through May, downward revisions are likely to follow.

Finally, please note that, going forward, we will publish our market view on a quarterly basis, complemented by shorter ad hoc updates when market conditions warrant. We believe this approach provides greater flexibility and a clearer view of our thinking. As always, we remain available for direct discussions—either via call or email.

Sources: Bloomberg, Goldman Sachs, JP Morgan, 3Fourteen Research, Macro 42, BCA Research, Fidelity, Haver Analytics, Steno Research, The Macro Compass

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